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MUNICIPAL REFERENCE

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Allan G. Andrews, C.A.
*Metropolitan Auditor*

# THE MUNICIPALITY OF METROPOLITAN TORONTO
# PENSION FUND

**Report on the audit of the books and accounts for the year ended**

**December 31, 1983**

The Municipality of
Metropolitan Toronto

**Metropolitan Audit Department**

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**Allan G. Andrews, C.A.,** *Metropolitan Auditor*

June 27, 1984

**Mr. J. Burns, Chairman**
**and Members of the Board of Trustees**
**The Municipality of Metropolitan Toronto Pension Fund**

I have examined the financial statements of The Municipality of Metropolitan Toronto Pension Fund for the year ended December 31, 1983. These financial statements and my audit opinion of June 27, 1984 to the members of the Board of Trustees are attached. In this report I am commenting in some detail on the operations of the Fund and the content of significant items which appear in the financial statements.

A general background on the statutory provisions and administration of the Pension Plan is included in Appendix I.

## FUND INVESTMENTS

One of the responsibilities of the Board of Trustees is to establish appropriate policies for the investment of the assets of the Fund. Over the past several years, continuing review of investment guidelines has led to a significant restructuring of the Fund's investment portfolios.

Basically, the Trustees' objectives have been to increase the overall rate of return on invested assets so that benefits to members can be increased from time to time. More specifically, current policies are directed to achieving a reasonable return on investments, which approximates 2% in excess of the prevailing rates of inflation.

In attempting to achieve these results, the investment portfolio has been diversified to increase the emphasis on equities and growth securities while reducing the fixed income portion. Separate investment funds, both bonds and equities, have been established and placed under the management of external investment counsels.

Investment policy objectives and actual investments as at December 31, 1983 were as follows: (in thousands)

| Type of Investment | Managed by Metro Toronto | Managed by Other Managers | Total | % Holding | % Objectives |
|---|---|---|---|---|---|
| Short term deposits | $ 5,362 | $ 35,750 | $ 41,112 | 13.9 | 5 |
| Bonds | | | | | |
| Provincial and Federal Government | 15,870 | 48,894 | 64,764 | 22.0 | 20 |
| Municipality of Metro Toronto | 20,427 | | 20,427 | 6.9 | 5 |
| Other Municipalities | 54,300 | | 54,300 | 18.4 | 10 |
| Corporate | 11,612 | 4,055 | 15,667 | 5.3 | 10 |
| Mortgages | | 20,660 | 20,660 | 7.0 | 10 |
| Equities | | 73,401 | 73,401 | 24.9 | 35 |
| Real Estate | | 1,964 | 1,964 | .7 | 5 |
| Others | | 2,570 | 2,570 | .9 | |
| Total investments including short term | $107,571 | $187,294 | $294,865 | 100.0 | 100 |

The summary above is based on the cost or book values of the investments held. On a market value basis, equity investments as at December 31, 1983 represented 31% of the total portfolio, with a correspondingly lower fixed income component. It should also be noted that at December 31, 1983, the equity fund managers held over $20 million in short term deposits. If this amount which was available for investment had actually been invested in equities, total equities would have represented about 32% of the total portfolio on a cost basis. The increase in short term investments, which is considerably in excess of the trustees' objectives, is due to fund managers holding cash rather than bond or equity positions. Fund managers have adopted this tactic due to uncertain market conditions.

Summaries of the net assets of the managed investment funds are set out in Schedules 1 to 4 to the financial statements and transactions in the fund are summarized on pages 16 and 17 of this report.

Two bond funds were established in 1978 with an initial investment of $10 million each. A third fund was established in January 1983 with an initial investment of $12 million. During the year, additional investments of $5 million were made in the new fund and $7 million in each of the other two funds, with all net income therefrom being reinvested.

Equity investments currently comprise two separate equity funds under external management. In addition to the reinvestment of net income, further investments of $9 million were made in each of the funds during 1983.

Under the terms of the agreements with each of the investment counsel managing the bond and equity funds, the managers have complete discretion to invest in bonds and equities, as applicable, or to retain funds in cash or short term investments, subject to guidelines established by the Trustees from time to time. All such investments must conform with the requirements of The Pension Benefits Act and other applicable legislation.

Until 1983, the Fund's five bond and equity funds were managed by specialist managers. In 1983, the Board of Trustees considered the advantages and disadvantages of fund management by the "specialist" and "balanced" manager approach and decided to continue with the present specialist manager arrangement.

Mortgage investments currently comprise two separate funds under external management. During the year, further net investments of $5,466,000 were made in the mortgage fund managed by The Excelsior Life Insurance Company. Each mortgage is submitted for approval by the Board of Trustees before funds are advanced to Excelsior. Funds committed are retained by Excelsior in short term investments until such time as actual advances are made under the approved mortgages. No further investments are being made in the mortgage fund managed by The Royal Trust Company. Net cash flow of $1,265,000, generated from interest income and principal repayments less management fees of $19,000, has been returned to the Pension Fund.

In September 1983, the Board of Trustees entered into an agreement with the Excelsior Life Insurance Company for the administration of the Fund's interest in real estate. The initial net investment of $1,968,000 represents the Fund's share of the asset of $2,921,000, less an assumed mortgage payable of $953,000.

Investment income earned in 1983 represented a return of approximately 12.1% (1982 - 11.4%) on average book value for the year. Amounts of income received and losses and gains realized by the investment managers are shown on page 12 of this report. It should be noted that only those gains or losses in value that are actually realized on the disposal of investments are reflected in the determination of income for the year.

At December 31, 1983, the market value of internally managed bonds and debentures was approximately $13.8 million less than the book value. Market value decreased further subsequent to that date. However, since this portfolio is not normally traded and the investments were purchased with the intention to hold them to maturity, it has not been considered necessary to make provision for, or otherwise recognize the decline in the market value.

The market value of the externally managed bond and equity funds was approximately $20.7 million higher than cost at December 31, 1983.

The Board of Trustees obtains from outside sources periodic evaluations of investment performance which take into account the fluctuations in market value from period to period. These evaluations are felt to be a more realistic basis on which to evaluate the performance of investment managers for actively managed portfolios, such as the bond and equity funds.

## REVIEW OF THE FINANCIAL STATEMENTS

### Statement of Revenue, Expenditure and Accumulated Pension Fund.

Revenue for the year was $50,331,000, an increase of $6,314,000 over 1982. The major reason for the increase was an increase in investment income of $6,347,000. This was due principally to the higher level of invested assets, although there was a modest improvement in the return on investment.

After deducting expenditures of $9,189,000, the excess of revenue over expenditures of $41,142,000 was retained and added to the accumulated pension fund. The resulting accumulated pension fund balance of $299,342,000 at December 31, 1983 represents the net assets of the Fund which, together with future contributions, are available to meet benefit obligations to the members of the pension plan. As set out in Note 4 to the financial statements, these statements do not show such obligations nor the adequacy of the Fund to meet them. For this purpose, reference should be made to the annual report of the Fund's actuary.

CONTRIBUTIONS, CURRENT SERVICE - $9,555,000 (1982 - $9,692,000)

The rates of employee contributions to the Fund for current service depend on the basis on which the individual participating employers elect to determine pension benefits. Where pensions are determined on a "best-five-years" basis, contributions are either 6.5% of contributory earnings less Canada Pension Plan contributions or 5.5% of earnings up to the Canada Pension Plan maximum and 7% on the remainder. Firefighter employee rates are 1% higher than the foregoing. In all cases, employer contributions match the employee contributions.

If at any time the actuary determines that, in accordance with solvency tests prescribed under The Pension Benefits Act, contributions are insufficient to ensure that all benefits of the plan will be paid, he may recommend, amongst other remedies, increases in rates of contribution.

To date, all participating employers, except the City of Toronto (re Forest Hill and Swansea), have elected to improve pensions by adopting the "best-five-years" basis.

Details of contributions received with respect to current service are:

| | 1983 | 1982 |
|---|---|---|
| | (in thousands) | |
| **From employers** | | |
| Municipality of Metropolitan Toronto | | |
| General | $ 1,606 | $ 1,637 |
| Waterworks | 248 | 256 |
| | 1,854 | 1,893 |
| Local boards of Metropolitan Toronto | | |
| Police Commission (civilians) | 254 | 264 |
| Licensing Commission | 39 | 42 |
| Board of Management of the Metropolitan Toronto Zoo | 4 | 5 |
| | 297 | 311 |
| Other employers | | |
| Riverdale Hospital | 10 | 12 |
| Area municipalities | 2,553 | 2,563 |
| Local boards of area municipalities | 63 | 66 |
| | 2,626 | 2,641 |
| Total employers' contributions | 4,777 | 4,845 |
| **From members** | | |
| Required contributions | 4,775 | 4,844 |
| Additional voluntary contributions | 3 | 3 |
| Total members' contributions | 4,778 | 4,847 |
| Total contributions | $ 9,555 | $ 9,692 |

CONTRIBUTIONS, PAST SERVICE - $9,102,000 (1982 - $8,998,000)

Improvements to the pension plan by the adoption of the best-five-years pension formula have created substantial unfunded past service liabilities which must be funded by payments by the participating employers. With the exception of Etobicoke (New Toronto) Library Board, which has chosen to fund these liabilities over a ten year period, all employers have chosen to fund the liabilities over the maximum fifteen year period permitted under The Pension Benefits Act. The Fund records contributions for plan improvements and other past service contributions from employers as revenue in the year actually received and has not recorded the future payments due as accounts receivable. The details of the amounts received by the Fund in 1983 and to be received in future years are as follows:

Past service contributions - received

| | 1983 | 1982 |
|---|---|---|
| | (in thousands) | |
| From employers | | |
| Municipality of Metropolitan Toronto | $ 4,405 | $ 4,423 |
| City of North York | 2,791 | 2,692 |
| City of Scarborough | 909 | 909 |
| Borough of East York | 789 | 789 |
| North York Public Library Board | 85 | 85 |
| Other | 94 | 62 |
| | 9,073 | 8,960 |
| From members | 29 | 38 |
| Total contributions | $ 9,102 | $ 8,998 |

Further contributions from participating employers to meet unfunded past service liabilities, as set out below, will be credited to revenue as received.

| | |
|---|---|
| Municipality of Metropolitan Toronto | $4,405,000 annually, 1984 to 1992 |
| City of North York | $2,444,000 annually, 1984 to 1992<br>$36,000 annually, 1984 to 1989<br>$26,000 monthly, January 1984 to June 1991 |
| City of Scarborough | $909,000 annually, 1984 to 1992 |
| Borough of East York | $43,000 annually, 1984 to 1988<br>$62,000 monthly, January 1984 to November 1995 |
| North York Public Library Board | $85,000 annually, 1984 to 1992 |
| City of York re Weston | $23,000 annually, 1984 to 1992<br>$6,000 annually, 1984 to 1994<br>$3,000 annually, 1984 to 1994 |
| Etobicoke (New Toronto) Library Board | $3,000 annually, 1984 to 1988 |
| The Riverdale Hospital | $12,000 annually, 1984 to 1993 |

## INVESTMENT INCOME

Investment income for the year consists of:

| | 1983 | 1982 |
|---|---|---|
| | (in thousands) | |
| Internally managed bonds | | |
| Interest | $ 10,102 | $ 11,364 |
| Gain on sale | 1,227 | |
| | 11,329 | 11,364 |
| Externally managed investment funds | | |
| Bond funds | | |
| Interest | 6,484 | 3,765 |
| Gain on sale | 2,223 | 1,360 |
| | 8,707 | 5,125 |
| Equity funds | | |
| Dividends | 2,920 | 1,935 |
| Interest | 2,083 | 2,605 |
| Gain on sale | 2,911 | 628 |
| Recovery of prior year's U.S. Withholding Tax on dividend income | 465 | |
| | 8,379 | 5,168 |
| Mortgage funds interest | 2,509 | 2,091 |
| Real estate fund income | 43 | |
| Interest on short term deposits | 707 | 1,579 |
| | $ 31,674 | $ 25,327 |

Bond income of $11,329,000 represents the interest earned and net gain realized on sale of portion of the bond portfolio held and managed by the Treasury Department of the Municipality of Metropolitan Toronto and is made up as follows:

| | 1983 | 1982 |
|---|---|---|
| | (in thousands) | |
| Interest received during year | $ 10,360 | $ 11,233 |
| Deduct | | |
| Interest accrued at beginning of year | 2,680 | 2,694 |
| | 7,680 | 8,539 |
| Add | | |
| Interest accrued at end of year | 2,280 | 2,680 |
| Net amortization of bond discount and premium | 142 | 145 |
| Gain on sale | 1,227 | |
| | $ 11,329 | $ 11,364 |

The amount of $142,000 for net amortization of bond discounts and premiums represents the net difference between the interest earned on investments at the yield rate and the interest at the coupon rate.

During the year, in line with investment objectives, the Board of Trustees decided to take advantage of a favourable market condition to dispose of approximately $12 million worth of internally held bonds at a gain of $1,227,000.

Income from the externally managed investment and mortgage funds was as follows: (in thousands)

| | Manager | | | |
|---|---|---|---|---|
| | Manufacturer's Life | Confederation Life | J.R. Senecal | Total |
| **Bond funds** | | | | |
| Interest | $ 2,599 | $ 2,412 | $ 1,473 | $ 6,484 |
| Gain on sales | 1,128 | 858 | 237 | 2,223 |
| | $ 3,727 | $ 3,270 | $ 1,710 | $ 8,707 |
| Average return | 19.01% | 18.45% | 11.82% | 16.81% |

| | Buetel Goodman | Jarislowsky Fraser | Total |
|---|---|---|---|
| **Equity funds** | | | |
| Dividends | $ 1,248 | $ 1,672 | $ 2,920 |
| Interest | 1,540 | 543 | 2,083 |
| Gain on sales | 2,807 | 104 | 2,911 |
| | $ 5,595 | $ 2,319 | 7,914 |
| U.S. withholding tax recoverable | | | 465 |
| | | | $ 8,379 |
| Average return | 13.86% | 6.17% | 10.39% |

| | Royal Trust | Excelsior Life | Total |
|---|---|---|---|
| **Mortgage funds** | | | |
| Interest | $ 733 | $ 1,776 | $ 2,509 |
| Average return | 12.30% | 15.60% | 14.47% |

| | Excelsior Life | Total |
|---|---|---|
| **Real estate fund** | | |
| Net income | $ 43 | $ 43 |
| Average return | 5.94% | 5.94% |

Income as shown above is before deduction of management fees, which have been shown separately as expenditures in the financial statements. Net income, after deduction of management fees, is retained in the bond and equity funds for reinvestment by the respective fund managers. Net income from managed mortgage and real estate funds is returned to the Pension Fund.

In February 1983, the Board of Trustees authorized the engagement of the law firm of Osler, Hoskin and Harcourt to make application for a refund of the U.S. Withholding tax on the fund's investments in U.S. stocks. Refund of the 1979 withholding tax of $13,000 was received in December 1983. Total tax withheld for the years 1980-1983 to be recovered is estimated at $452,000 (including $182,000 for 1983).

## PENSIONS AND OTHER BENEFITS

Pensions and other benefits paid consist of the following amounts:

| | 1983 | 1982 |
|---|---|---|
| | (in thousands) | |
| Pensions paid to: | | |
| Retired members | $ 7,016 | $ 5,792 |
| Beneficiaries of deceased members and pensioners | 1,383 | 1,136 |
| | 8,399 | 6,928 |
| Guaranteed pension benefits | 74 | 52 |
| Residuary benefits | | 19 |
| | $ 8,473 | $ 6,999 |

ACCUMULATED PENSIONS REFUNDED OR TRANSFERRED TO OTHER PENSION PLANS - $165,000 (1982 - $174,000)

This amount represents refund of accumulated contributions and payments in respect of former employees who, on an individual basis, elected to transfer pension credits to pension plans eligible for such transfers under the terms of the governing By-law.

INVESTMENT MANAGEMENT FEES - $459,000 (1982 - $302,000)

This amount represents the fees charged for the management, custody and audit of the externally managed investment funds. Management and custodial fees are determined in accordance with fee schedules set out in separate agreements with each fund manager and with the custodian of funds.

INVESTMENT CONSULTING FEES - $19,000 (1982 - $19,000)

This amount includes fees amounting to $9,000 (1982 - $8,000) paid to a consultant retained by the Board of Trustees to provide investment advice and to assist in the selection of managers for the investment and mortgage funds.

The balance represents payments in respect of investment performance evaluations.

## Balance Sheet

### INVESTMENTS

Investments held by the Fund at December 31, 1983 consist of the following:

| | 1983 | 1982 |
|---|---|---|
| | (in thousands) | |
| Internally managed bonds and debentures | | |
| Issued or guaranteed by | | |
| Government of Canada | $ 8,393 | $ 18,037 |
| Provincial Government | 7,477 | 10,006 |
| Municipality of Metropolitan Toronto | 20,427 | 22,455 |
| Other municipalities | 54,300 | 55,729 |
| Corporations | 11,612 | 11,610 |
| | 102,209 | 117,837 |
| Market value - $88,370,000 (1982 - $103,725,000) | | |
| Net assets of externally managed investment funds | | |
| Bond funds (Schedule 1) | 69,910 | 30,371 |
| Market value - $69,504,000 (1982 - $32,602,000) | | |
| Equity funds (Schedule 2) | 94,760 | 69,088 |
| Market value - $115,896,000 (1982 - $77,020,000) | | |
| Mortgage funds (Schedule 3) | 20,660 | 16,459 |
| Real estate fund (Schedule 4) | 1,964 | |
| | $ 289,503 | $ 233,755 |

Set out below are summaries of the transactions in the investment accounts during the year:

| | 1983 | 1982 |
|---|---|---|
| | (in thousands) | |
| Internally managed bonds and debentures | | |
| Book value, beginning of year | $ 117,837 | $ 120,180 |
| Add | | |
| Investments purchased at cost | | 500 |
| Net amortization of bond discounts and premiums | 142 | 145 |
| | 117,,979 | 120,825 |
| Deduct | | |
| Investments matured and sold | 15,770 | 2,988 |
| Book value, end of year | $ 102,209 | $ 117,837 |

The bond and debenture portfolio is held and managed by the Treasury Department of Metropolitan Toronto. I made a physical examination of these investments as at the end of the year and found them to be in order and registered in the name of the Pension Fund. The book value of $102,209,000 represents the cost of the investments adjusted by amortization of the premium or discount on purchase over the term of the issue. The par value of the bonds and debentures held totals $103,201,000 at the end of the year.

Externally managed investment funds

| | 1983 | 1982 |
|---|---|---|
| | (in thousands) | |
| **Bond funds** | | |
| Book value, beginning of year | $ 30,371 | $ 25,326 |
| Cash invested during year | 31,000 | |
| | 61,371 | 25,326 |
| Net investment income | 8,707 | 5,124 |
| Less Management fees | 168 | 79 |
| | 8,539 | 5,045 |
| Book value, end of year | $ 69,910 | $ 30,371 |
| **Equity funds** | | |
| Book value, beginning of year | $ 69,087 | $ 50,583 |
| Cash invested during year | 18,000 | 13,500 |
| | 87,087 | 64,083 |
| Net invested income | 7,914 | 5,169 |
| Less Management fees | 241 | 164 |
| | 7,673 | 5,005 |
| Book value, end of year | $ 94,760 | $ 69,088 |
| **Mortgage funds** | | |
| Book value, beginning of year | $ 16,459 | $ 15,631 |
| Net cash invested during year | 4,201 | 828 |
| Book value, end of year | $ 20,660 | $ 16,459 |
| **Real estate fund** | | |
| Cash invested during year | $ 1,968 | |
| Add Principal repayment of mortgage assumed | 3 | |
| | 1,971 | |
| Less Accumulated depreciation | 7 | |
| Book value, end of year | $ 1,964 | |

The assets of the externally managed bond and equity funds are held in safekeeping by The Canada Trust Company. The Board of Trustees appointed Coopers & Lybrand, Chartered Accountants, to provide individual audit reports on the operations and assets of each of these funds. As part of their audit procedures, they physically examined and counted securities held for each of the funds. Because of the significance to the Pension Fund of these assets, my staff attended this examination.

The assets of the mortgage funds are held and managed by investment managers under separate management agreements.

When the Board of Trustees decided to invest in real estate in July 1983, existing legislation did not allow the Trustees to hold title to property on behalf of the Fund and an agreement was entered into with Canada Trust Company for this purpose. The Board recommended that the Metropolitan Council request the Province of Ontario to enact legislation to enable the Trustees to hold land on behalf of the Fund. This recommendation was adopted by the Metropolitan Council in September 1983 and subsequently, legislation was passed by the Province of Ontario under Bill 61 which received Royal Assent on May 29, 1984.

INTEREST RECEIVABLE - $2,945,000 (1982 - $3,359,000)

This amount represents interest on bonds, debentures, short term deposits, mortgages and bank balances which was earned in 1983 but not received until 1984.

ACCOUNTS RECEIVABLE - $512,000 (1982 - $198,000)

Of this amount, $452,000 is the estimated amount of U.S. Withholding tax on stock investments to be recovered, as mentioned on page 13of this report.

The balance represents pension overpayments recoverable from pensioners and principal repayments receivable from Excelsior Life and Royal Trust mortgages.

SHORT TERM INVESTMENTS - $5,362,000 (1982 - $19,766,000)

In 1982, the investment policy adopted by the Board of Trustees specified an objective of 5% be invested in short term investments. The short term investments of $5,362,000 in 1983 represented 1.8% of the total investment portfolio of the Fund, while the holding in 1982 of $19,766,000 was above target at 7.8%.

CASH - $204,000 (1982 - $151,000)

This balance has been reconciled with the amounts confirmed to me directly by the Pension Fund's banker.

## ACCOUNTS AND BENEFITS PAYABLE

This is made up of:

| | 1983 | 1982 |
|---|---|---|
| | (in thousands) | |
| Pensions | | |
| Retired members | $ 337 | $ 248 |
| Beneficiaries of deceased members or pensioners | 85 | 84 |
| Unclaimed benefits | 4 | 4 |
| Sundry accounts payable | 15 | 22 |
| | $ 441 | $ 358 |

## GENERAL COMMENTS

### 1. ACTUARIAL VALUATION

As indicated in Note 4 to the financial statements, the statements show only the performance of the fund for 1983 and its financial position at the end of the year. The ability of the fund to meet its eventual obligations for payment of pensions and death benefits for members is examined in an actuarial report. The trustees have chosen to have such a report prepared annually.

The latest report available is for 1982 and indicates a surplus after providing for contingencies and other requirements of $38,752,000 (1981 - $22,075,000). According to the actuary's report, the 1982 increase of actuarial surplus of $16,677,000 was due to investment gains and favourable retirement, mortality experience, wage escalation and miscellaneous adjustments less cost of 1982 pension benefit increases. Out of the 1982 actuarial surplus, $3,163,000 was used to increase benefits to existing pensioners in 1983 by 6% and the balance was used towards funding the early retirement "rule of 90" to be implemented in 1984.

## 2. FIDELITY BONDS AND LIABILITY INSURANCE COVERAGE

Under surety bond of the Metropolitan Corporation, the Metropolitan Treasurer, who is also Treasurer of the Pension Fund, and all other employees of the Metropolitan Corporation are bonded for $1,000,000 each. Employees who handle securities are bonded for $4,000,000 in excess of the basic $1,000,000. This coverage includes the activities of such persons in the operation of this fund.

The Fund obtained, under separate policy, liability coverage in the amount of $5,000,000 covering the actions of Trustees on behalf of the Fund.

## 3. THE PENSION BENEFITS ACT

The operation of the fund is subject to the requirements of The Pension Benefits Act.

The Trustees of the Fund, in February 1965, applied for registration of the Fund and approved certain amendments to the governing by-law to conform to the requirements of The Pension Benefits Act, which have since been approved also by the Metropolitan Council and the pertinent Provincial Minister. I have examined the certificate of registration issued by the Pension Commission of Ontario dated June 24, 1965, and have been advised that copies of all amendments effective in 1965 and subsequently up to and including By-law No. 127-83 in 1983, have been sent to the Commission.

3. (cont'd.....)

Section 4 of Regulation 654 issued under The Pension Benefits Act requires actuarial reports to be filed with the Commission not more than three years apart, certifying the estimated cost of benefits in respect of service in the next succeeding year and the rule for computing such cost in subsequent years up to the date of the next report, and any surplus or any experience deficiency and liquidation contributions required over a term not exceeding five years.

A report including a statement of assets and the cost certificate at December 31, 1982, prepared by the Actuary, has been filed with the Commission.

Section 6(1) of the Regulations under this Act requires the annual return for the year ended December 31, 1983 to be filed by June 30, 1984. I have examined a copy of this return to the Commission which is dated April 27, 1984.

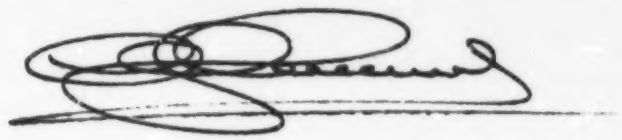
4. THE ONTARIO MUNICIPAL EMPLOYEES RETIREMENT SYSTEM ACT

This Act applies to the Municipality of Metropolitan Toronto and its local boards and commissions.

Under this Act and its Regulations, an employer is not allowed to contribute to the provision of pensions for new employees hired subsequent to June 30, 1968, other than under the provisions of the Plan set up under this Act, or the Canada Pension Plan.

As the Metropolitan Corporation on June 15, 1965 elected, with respect to new employees, to participate in O.M.E.R.S., all new employees hired subsequent to June 30, 1968 are required to become members of O.M.E.R.S. This applies also to employees of other participating employers who have so elected.

Employees of a participating employer for whom an employer's election to participate has not been made may join if (a) such election is made, and (b) 75% of them apply, or membership is a condition of or required by the collective agreement between the employees' local union and the employer. In that event,the restrictions on the employer's contributions mentioned above will apply to all such employees.



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**Allan G. Andrews, C.A.,** *Metropolitan Auditor*

June 27, 1984

## AUDITOR'S REPORT

**To the Members of the Board of Trustees**
**The Municipality of Metropolitan Toronto Pension Fund**

I have examined the balance sheet of The Municipality of Metropolitan Toronto Pension Fund as at December 31, 1983 and the statement of revenue, expenditure and accumulated pension fund for the year then ended. My examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as I considered necessary in the circumstances.

In my opinion, these financial statements present fairly the financial position of the Fund as at December 31, 1983 and the results of its operations for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

**METROPOLITAN AUDITOR**

## THE MUNICIPALITY OF METROPOLITAN TORONTO PENSION FUND

## BALANCE SHEET

## DECEMBER 31, 1983

(with comparative figures for 1982)

| | 1983 | 1982 |
|---|---|---|
| | (in thousands) | |
| **ASSETS** | | |
| Investments (note 3) | $289,503 | $233,755 |
| Interest receivable | 2,945 | 3,359 |
| Accounts receivable | 512 | 198 |
| Contributions receivable | 1,257 | 1,352 |
| Short term investments | 5,362 | 19,766 |
| Cash | 204 | 151 |
| | $299,783 | $258,581 |
| **LIABILITIES** | | |
| Accounts and benefits payable | $ 441 | $ 358 |
| Prepaid contributions | | 23 |
| | 441 | 381 |
| Accumulated pension fund | 299,342 | 258,200 |
| | $299,783 | $258,581 |

(see accompanying notes)

## THE MUNICIPALITY OF METROPOLITAN TORONTO PENSION FUND

## STATEMENT OF REVENUE, EXPENDITURE AND ACCUMULATED PENSION FUND

## FOR THE YEAR ENDED DECEMBER 31, 1983

(with comparative figures for 1982)

| | 1983 | 1982 |
|---|---|---|
| | (in thousands) | |
| **REVENUE** | | |
| Contributions (note 2) | | |
| Current service | $ 9,555 | $ 9,692 |
| Past service | 9,102 | 8,998 |
| | 18,657 | 18,690 |
| Investment income (note 3) | 31,674 | 25,327 |
| | 50,331 | 44,017 |
| **EXPENDITURE** | | |
| Pensions and other benefits | 8,473 | 6,999 |
| Accumulated contributions refunded or transferred to other pension plans | 165 | 174 |
| Acutuarial fees | 63 | 69 |
| Investment management fees | 459 | 302 |
| Investment consulting fees | 19 | 19 |
| Other expenses | 10 | 17 |
| | 9,189 | 7,580 |
| EXCESS OF REVENUE OVER EXPENDITURE | 41,142 | 36,437 |
| ACCUMULATED PENSION FUND, JANUARY 1 | 258,200 | 221,763 |
| ACCUMULATED PENSION FUND, DECEMBER 31 | $299,342 | $258,200 |

(see accompanying notes)

# THE MUNICIPALITY OF METROPOLITAN TORONTO PENSION FUND
## NOTES TO FINANCIAL STATEMENTS
## FOR THE YEAR ENDED DECEMBER 31, 1983

1. ACCOUNTING POLICIES

(a) Investments

Investments in bonds and equity funds managed externally are carried at cost plus accumulated earnings. Investments in bonds and debentures managed internally are carried at cost adjusted by amortization of the premium or discount on purchase over the term of the issue. Mortgage funds are stated at cost. Real estate fund is stated at cost less accumulated depreciation. Depreciation on the rental building and capital improvements is provided on the sinking fund method in annual amounts increasing at the rate of 6% compounded annually which is sufficient to fully depreciate the building over its estimated useful life of 40 years.

(b) Gains and losses on investments

Gains and losses on investments are recorded only upon sale of such investments and are determined on an average cost basis.

(c) Income recognition

Income on investments is recorded on the accrual basis with dividends being recorded on the ex-dividend date.

1. ACCOUNTING POLICIES (cont'd)

(d) Foreign currencies

Stocks purchased or sold in foreign currencies are translated into Canadian dollars using exchange rates prevailing at the date of acquisition or sale of the investments. Dividends received on foreign stocks are translated using exchange rates prevailing on the date of receipt of the dividends. Accrued dividends and market values are translated using year-end exchange rates.

2. CONTRIBUTIONS

| | 1983 | 1982 |
|---|---|---|
| | (in thousands) | |
| a) Current service contributions | | |
| From employers | $ 4,777 | $ 4,845 |
| From members | 4,778 | 4,847 |
| Total contributions | $ 9,555 | $ 9,692 |
| b) Past service contributions | | |
| From employers | $ 9,073 | $ 8,960 |
| From members | 29 | 38 |
| Total contributions | $ 9,102 | $ 8,998 |

Further contributions from participating employers to meet unfunded past service liabilities total $82,682,000 (1982 - $91,713,000). These contributions will be paid to the fund over periods ending in 1995 and will be credited to revenue as received.

## 3. INVESTMENTS AND INVESTMENT INCOME

| | 1983 | 1982 |
|---|---|---|
| | (in thousands) | |
| a) Investments consist of the following: | | |
| Internally managed bonds and debentures | $102,209 | $117,837 |
| Market value - $88,370,000 (1982 - $103,725,000) | | |
| Net assets of externally managed investment funds | | |
| Bond funds (Schedule 1) | 69,910 | 30,371 |
| Market value - $69,504,000 (1982 - $32,602,000) | | |
| Equity funds (Schedule 2) | 94,760 | 69,088 |
| Market value - $115,896,000 (1982 - $77,020,000) | | |
| Mortgage funds (Schedule 3) | 20,660 | 16,459 |
| Real estate fund (Schedule 4) | 1,964 | |
| | $289,503 | $233,755 |
| b) Investment income for the year | | |
| Internally managed bonds | $ 11,329 | $ 11,364 |
| Externally managed investment funds | | |
| Bonds | 8,707 | 5,125 |
| Equities | 8,379 | 5,168 |
| Mortgages | 2,509 | 2,091 |
| Real estate | 43 | |
| Interest on short term deposits | 707 | 1,579 |
| | $ 31,674 | $ 25,327 |

3. (cont'd.....)

The assets of the externally managed bond and equity funds are held by a trust company under the terms of a custodial agreement. The funds are managed by certain investment managers under separate management agreements. Net income is retained by each of the managed bond and equity funds for reinvestment by the respective fund managers. A summary of the net assets held in each of the funds is set out in Schedules 1 and 2.

The assets of the externally managed mortgage and real estate funds are held and managed by investment managers under separate management agreements. A summary of the net assets held in each of the funds is set out in Schedules 3 and 4.

Income from the externally managed funds is recorded in the accounts of the Pension Fund as investment income as earned. Management and mortgage acquisition fees are expensed by the Pension Fund as incurred.

4. ACTUARIAL VALUATION

The financial statements show only the financial position of the Fund and do not purport to show the adequacy of the Fund to meet obligations for payment of pensions and death benefits to members.

The Fund was reviewed and reported on by an independent actuary as of December 31, 1982. As required by The Pension Benefits Act of Ontario, the actuarial report, including a statement of assets and cost certificate, was filed with the Pension Commission of Ontario. The actuary certified that the Fund was in satisfactory financial condition as at December 31, 1982, subject to continued payment of regular contributions by the members and the employers and the liquidation of an unfunded liability. The present value of the unfunded liability of the Benefit Fund decreased from a level of

4. (cont'd.....)

$68,447,000 as at December 31, 1981, the date of the previous actuarial report, to $66,362,000 as at December 31, 1982. The decrease was due to instalment payments made to the Fund during 1982 by the Metropolitan Toronto Corporation and other participating employers.

5. CHANGES IN FINANCIAL POSITION

No statement of changes in financial position has been prepared as such a statement does not give significant additional disclosure. Funds generated were equal to the excess of revenue over expenditure and were applied as follows:

| | 1983 | 1982 |
|---|---|---|
| | (in thousands) | |
| Investments | $ 55,749 | $ 22,035 |
| Changes in short term assets and liabilities | (14,607) | 14,402 |
| | $ 41,142 | $ 36,437 |

SCHEDULE 1

## THE MUNICIPALITY OF METROPOLITAN TORONTO PENSION FUND

## SCHEDULE OF NET ASSETS HELD IN EXTERNALLY MANAGED INVESTMENT FUNDS

### DECEMBER 31, 1983
(in thousands)

| | 1983 Managers | | | | 1982 |
|---|---|---|---|---|---|
| | Manufacturer's Life | Confederation Life | J.R. Senecal | Total | Total |
| **Bonds Funds** | | | | | |
| Bonds, issued or guaranteed by: | | | | | |
| Government of Canada | $ 18,600 | $ 14,973 | $ 6,026 | $ 39,599 | $ 16,579 |
| Provincial Governments | 1,695 | 4,847 | 2,753 | 9,295 | 4,874 |
| Corporations | | 2,268 | 1,787 | 4,055 | 4,685 |
| | 20,295 | 22,088 | 10,566 | 52,949 | 26,138 |
| Short term deposits | 5,647 | 1,583 | 7,788 | 15,018 | 3,027 |
| Accued interest | 873 | 609 | 245 | 1,727 | 1,024 |
| Cash | 1 | 193 | 69 | 263 | 203 |
| | 26,816 | 24,473 | 18,668 | 69,957 | 30,392 |
| Less accrued liabilities | 15 | 14 | 18 | 47 | 21 |
| Net Assets | $ 26,801 | $ 24,459 | $ 18,650 | $ 69,910 | $ 30,371 |
| Market Value of Fund | $ 26,576 | $ 24,403 | $ 18,525 | $ 69,504 | $ 32,60[illegible] |

SCHEDULE 2

## THE MUNICIPALITY OF METROPOLITAN TORONTO PENSION FUND

## SCHEDULE OF NET ASSETS HELD IN EXTERNALLY MANAGED INVESTMENT FUNDS

### DECEMBER 31, 1983
(in thousands)

| | 1983 Managers | | | 1982 |
|---|---|---|---|---|
| Equity Funds | Buetel Goodman | Jarislowsky Fraser | Total | Total |
| Stocks at cost | | | | |
| Canadian - common | $ 23,054 | $ 24,462 | $ 47,516 | $ 30,773 |
| Foreign - common | 11,624 | 13,291 | 24,915 | 20,654 |
| Canadian - other | 970 | | 970 | 762 |
| | 35,648 | 37,753 | 73,401 | 52,189 |
| Short term deposits | 14,392 | 6,340 | 20,732 | 16,537 |
| Accrued income | 358 | 226 | 584 | 476 |
| Cash | 29 | 78 | 107 | (69) |
| | 50,427 | 44,397 | 94,824 | 69,133 |
| Less accrued liabilities | 32 | 32 | 64 | 45 |
| Net Assets | $ 50,395 | $ 44,365 | $ 94,760 | $ 69,088 |
| Market Value of Fund | $ 57,035 | $ 58,861 | $ 115,896 | $ 77,020 |

SCHEDULE 3

# THE MUNICIPALITY OF METROPOLITAN TORONTO PENSION FUND

## SCHEDULE OF EXTERNALLY MANAGED MORTGAGE FUNDS

### DECEMBER 31, 1983
(in thousands)

| Number of Mortgages | Year | Interest % | 1983 Managers: Royal Trust | 1983 Managers: Excelsior Life | 1983 Total | 1982 Total |
|---|---|---|---|---|---|---|
| **Mortgages** | | | | | | |
| Aggregate principal amount of mortgages maturing in the following years and bearing interest as noted: | | | | | | |
| | 1983 | | $ | $ | $ | $ 2,302 |
| 28 | 1984 | 10.75-14.00 | 888 | | 888 | 580 |
| 7 | 1985 | 11.75-18.75 | 147 | 491 | 638 | 572 |
| 14 | 1986 | 12.00-20.50 | 378 | 1,184 | 1,562 | 1,408 |
| 15 | 1987 | 12.75-19.50 | 349 | 3,352 | 3,701 | 4,064 |
| 27 | 1988 | 12.25-19.82 | 592 | 7,511 | 8,103 | 600 |
| 5 | 1989 | 10.50-13.50 | 3,306 | 939 | 4,245 | 3,321 |
| 1 | 1991 | 11.625 | | 989 | 989 | 994 |
| 97 | | | 5,660 | 14,466 | 20,126 | 13,841 |
| Short term investments (mortgages committed but not yet advanced) | | | | 534 | 534 | 2,604 |
| Cash | | | | | | 14 |
| | | | $ 5,660 | $ 15,000 | $ 20,660 | $ 16,459 |

SCHEDULE 4

# THE METROPOLITAN TORONTO PENSION FUND

## SCHEDULE OF EXTERNALLY MANAGED REAL ESTATE FUND

## DECEMBER 31, 1983

| | | 1983 |
|---|---|---|
| | | Manager Excelsior Life (in thousands) |
| Rental property, at cost less accumulated depreciation | | $2,914 |
| Less: | Mortgage payable | 950 |
| | | $1,964 |

Note:

The mortgage payable is secured by a first fixed charge against the rental property and an assignment of leases and rents.

The mortgage bears interest at 11.25% per annum and is repayable as follows until its maturity on June 1, 1987:

| | (in thousands) |
|---|---|
| 1984 | $ 9 |
| 1985 | 10 |
| 1986 | 11 |
| 1987 | 920 |

## APPENDIX I

## METROPOLITAN TORONTO PENSION FUND

### GENERAL BACKGROUND

#### Statutory Provisions

Section 24 of The Municipality of Metropolitan Toronto Act provides that the Metropolitan Coporation may:

1. By by-law, passed by a two-thirds majority of votes cast, provide pensions for employees, their spouses and children.

2. Enter into an agreement with a local board of the Metropolitan Corporation, an area municipality, a local board of an area municipality, or the Toronto and York Roads Commission, to admit the employees of such employers into the Metropolitan Toronto Pension Plan.

Under this authority, a pension plan was established in 1956 and was amended in 1958 when the Metropolitan Council passed By-law 843 to provide pensions for permanent employees of the Metropolitan Corporation and of the other participating employers and to provide pensions and certain supplementary death benefits to the spouses and children of such employees. This by-law and all amending by-laws thereto were repealed in 1983 and replaced by By-law 64-83,approved by the Ministry of Municipal Affairs and Housing on May 18, 1983 and governs the operation of the fund from April 26, 1983, its effective date.

The most significant recent amendments made to the Plan relate to the introduction of the best-five-years pension formula. This improvement was adopted for employees of the Metropolitan Corporation retiring on or after January 1, 1977, applicable to both past and future service. Other participating employers may elect to provide the improved benefits for any period of credited service, and contribution rates may be varied with the approval of the Board of Trustees.

All major participating employers have elected to adopt the best-five-years pension formula. All employers who have made elections to date have elected to apply the improved benefits to past service as well as future service. The cost of the improvements to past service benefits can be substantial and must be met by additional contributions to the Fund by the employers. In accordance with the provisions of The Pension Benefits Act and the By-laws of the Plan, these liabilities may be paid in either a lump sum or in not more than fifteen annual instalments, and all of these employers have elected to pay in instalments.

Participating Employers

The following employers participate in the Pension Plan:

Municipality of Metropolitan Toronto, including:

- Metropolitan Waterworks System
- Licensing Commission
- Police Commission - Civilian employees
- Board of Management of the Metropolitan Toronto Zoo

Area Municipalities

- City of North York
- City of Scarborough
- Borough of East York, including former Town of Leaside
- City of Toronto re former Villages of Forest Hill and Swansea

Local Boards of Area Municipalities

- North York Public Library Board
- Etobicoke Public Library Board re former New Toronto Board

Riverdale Hospital

The participation of each of the employers above is in accordance with terms of agreements which were completed by each employer as required under By law 64-83.

In addition, the following employers were participants under agreements but, following members' elections when the employers were annexed to the present area municipalities or members' elections to join Ontario Municipal employees Retirement System (O.M.E.R.S.), no longer make contributions to the Fund:

Toronto and York Roads Commission
(now part of the Regional Municipality of York)

Weston Public Library Board

Swansea Board of Education
(now part of Toronto Board)

Village of Forest Hill
(now part of Toronto)
- re Firemen (not designated as Fire Fighter Members

Scarborough Public Library Board

City of Scarborough
- re Fire Fighter Members

North York Board of Education

Forest Hill Public Library Board
(now part of Toronto Board)

East York Board of Education

The agreements continue in effect as long as necessary to protect the interest of any member thereunder.

The agreements into which the North York Board of Education entered were effectively cancelled as far as participation is concerned by an agreement dated May 8, 1972, under which all the assets and liabilities pertaining to persons whose membership resulted solely from employment by this employer were segregated and assumed by a separate fund under trustess designated by the North York Board.

By-law 64-83 and The Municipality of Metropolitan Toronto Act define "employee" as including any person so designated by the Minister of Municipal Affairs and Housing. From time to time, employees of other employers have, on request and with the approval of the Metropolitan Council, been designated as employees of the Metropolitan Corporation for pension purposes. For example, employees of the Metropolitan Toronto Housing Company Limited were so designated from May 1, 1959 until Company employees were transferred to the Metropolitan Corporation effective Junuary 1, 1975. Similarly, certain employees who were then employed by the Metropolitan Toronto Zoological Society were so designated.

All employers became restricted by law as to participation in the Plan effective July 1, 1968. From that date, pensions for new employees must be provided through O.M.E.R.S.

Administration of the Pension Plan

Administration of the Penison Plan is vested in a Board of six Trustees whose term of office coincides with the term of the Metropolitan Council, as follows:

One person who is not a member of the Metropolitan Council, to be apointed by that Council, and who shall be the Chairman of the Board;

The Chairman of the Metropolitan Council;

One member of the Metropolitan Council to appointed by the Council;

One member of the Plan who is an employee of the Metropolitan Corporation or of its local boards and commissions to be elected by those members of the Plan employed by the Metropolitan Corporation and its local boards and commissions;

One member of the Plan who is an employee of a Participating Employer other than a local board or commission of the Metropolitan Corporation, to be elected by the members of the Plan employed by such Participating Employers;

The Metropolitan Treasurer or his Deputy who shall be a member ex-officio without voting rights.

A quorum of the Board is a majority of the voting members, provided that one representative of the employees, one representative of Council and the Metropolitan Treasurer or his Deputy are present.

The Trustees are responsible for the receipt of all contributions to the Fund, for the custody of the Fund, including the investment of monies in conformity with the requirements of The Pension Benefits Act, for the appointment of an Actuary, for the payment of benefits out of the Fund for keeping all necessary records, for validating all claims for benefits and for informing each member of the Plan in writing of its terms and his/her rights and duties thereunder. Upon receipt of the Actuary's reports, the Trustees are to advise the Metropolitan Council of the condition of the Fund and of and of any necessary or desirable action to safeguard it or improve its operation.

The Pension Division of the Metropolitan Toronto Treasury department carries out the day-to-day administration of the pension plan, maintains benefit records and keeps the primary books and accounts of the Fund.

The Deputy Metropolitan Treasurer was appointed General Manager of the Fund at a meeting of the Board of Trustees held on April 7, 1983.

The Fund also bears the expense of registration fees and acutuarial and legal fees that are authorized by the Board of Trustees, and management, safekeeping and audit fees for its externally managed investment funds. All other expenses incurred in the operation of the Fund are borne by the Employer.

POOR

QUALITY

ORIGINAL